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Amadeus Wealth Alternatives
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In this week's recap: A difficult week for stocks, reacting to delayed stimulus, little good news on COVID-19 treatment, and jobless claims.

Weekly Economic Update

Presented by Edward Papier, CIMA® CFF, October 19, 2020

THE WEEK ON WALL STREET

Stocks treaded water last week amid fading prospects for a stimulus bill, fears of a second wave of COVID-19 cases, and increasing political and regulatory pressures on Big Tech companies.

The Dow Jones Industrial Average added just 0.07% while the Standard & Poor's 500 eked out a gain of 0.19%. The Nasdaq Composite index picked up 0.79% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, slid 2.08%.[1,2,3]

ROCKY WEEK

The stock market began the week by posting strong gains on hopes of a fiscal stimulus bill. Also, investors were optimistic that earnings season would reflect an improving picture of corporate performance.

But stocks stumbled midweek on a mixed bag of early earnings results, and an increase in COVID-19 cases in the U.S. and Europe. Disappointing news on some key COVID-19 treatment trials also weighed on the market, as did a jump in new jobless claims and a continued stalemate on a fiscal stimulus package.

Stocks attempted to rally on Friday, emboldened by strong retail sales, but lost momentum as trading came to a close.

EARNINGS SEASON KICKS OFF

Earnings season began on an upbeat note as major banks mostly beat revenue and profit expectations. Banks attributed the strength to rising consumer deposits, a drop in the amount of money set aside for failing loans, and strong results from their investment banking and trading units.[4]

Airlines fared less well. Investors were disappointed with the quarterly reports even though the average daily cash burn at these companies generally improved. Airline management uniformly accompanied their earnings announcements with warnings of continued near-term weakness due to COVID-19.[5]

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Housing Starts.

Thursday: Jobless Claims. Existing Home Sales. Index of Leading Economic Indicators.

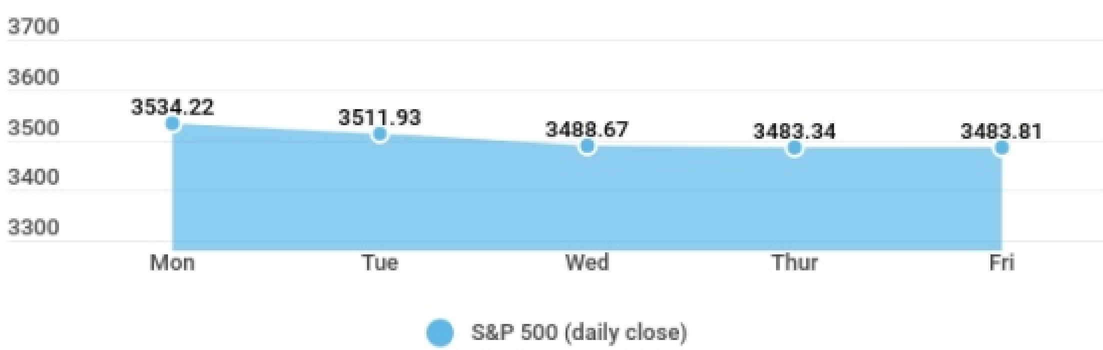
QUOTE OF THE WEEK

Man is the Reasoning Animal. Such is the claim.

I think it is open to dispute.

MARK TWAIN

Market Index	Close	Week	Y-T-D
DJIA	28,606.31	+0.07%	+0.24%
NASDAQ	11,671.56	+0.79%	+30.08%
MSCI-EAFE	1,870.46	-2.08%	-8.17%
S&P 500	3,483.81	+0.19%	+7.83%



	Treasury	Close	Week	Y-T-D
	10-Year Note	0.76%	-0.03%	-1.16%

Sources: The Wall Street Journal, October 16, 2020; Treasury.gov, October 16, 2020
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ

Composite Index is measured from the close of trading on Friday, October 9, to Friday, October 16, close. Weekly performance for the MSCI-EAFE is measured from Friday, October 9, open to the Thursday, October 15, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

Yesterday, San Fran Fed president Mary Daly made a stunning admission: just in case there was any confusion, the Fed *knows* that it has - and continues to blow - an asset bubble, making "a few" who own stocks uber-rich. The economy is now so reliant on the Fed liquidity firehose that the moment the Fed threatens to pop this bubble, which some have estimated to be around $90 trillion in liquidity, such action would result in economic devastation and leave millions without a job.

It also appears the Fed makes dramatic revelations in two, because just one day after Daly admitted that the Fed is trapped, the Fed's Vice Chair for Supervision, Randal Quarles, made an even more shocking admission, when he said that the Treasury market is now so large that the U.S. central bank may have to continue to be involved to keep it functioning properly.

Following its decade-long attempt to "stimulate inflation" by cutting rates, something which is actually deflationary, and which the Fed did by manipulating bond yields through ZIRP and QE, the Fed only now realizes that if the central bank steps away, everything will crash and yields will explode higher, similar to what happened to repo rates last September when clearing rates briefly hit 10% in a market that was seen as Fed-less. In short, there is no longer a market, there are only centrally-planned transactions which can only happen with the explicit blessing of the Fed, which could pull its backstops on a whim and crash trillions in assets in a nanosecond.

Speaking at a virtual panel conversation on the future of central banking hosted by the Hoover Institute, Quarles said "it may be that there is a simple macro fact that the Treasury market being so much larger than it was even a few years ago, much larger than it was a decade ago and now really much larger than it was even a few years ago, that the sheer volume there may have outpaced the ability of the private market infrastructure to support stress of any sort there."

Quarles then said that raises a question of whether the private sector can ever grow fast enough to cope, "or will there be some indefinite need for the Fed to provide -- not as a way of supporting the issuance of Treasuries, but as a way of supporting a functioning market in Treasuries -- to participate as a purchaser for some period of time." Actually, he can keep the "supporting the issuance of Treasuries" in there too, because by now everyone knows that the Fed is monetizing every single dollar in debt the Treasury sells to prevent the entire house of cards from collapsing.
Translation: the Fed can never again step away and stop manipulating the bond market, which is the market which defines every other market, including stocks, commodities, foreign exchange and so on.

In other words, the Fed is now an irreplaceable anchor of what was once known as the market, in perpetuity. Realizing the chaos his comments would lead to if they were not phrased as an open-question, the vice chair quickly caveated his statement saying that "I haven't concluded that that's the case, the institution certainly hasn't concluded that that's the case, but I do think it's an open question" but the mere fact that the Fed is even mentioning this as a possibility tells us all we need to know, and is also why stocks and bonds will never again crash until the Fed steps away from its new third mandate, to keep the stock and bond markets propped up at all cost.[6]

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